HOUSING MARKET OUTLOOK
St. Catharines-Niagara CMA

CANADA MORTGAGE AND HOUSING CORPORATION

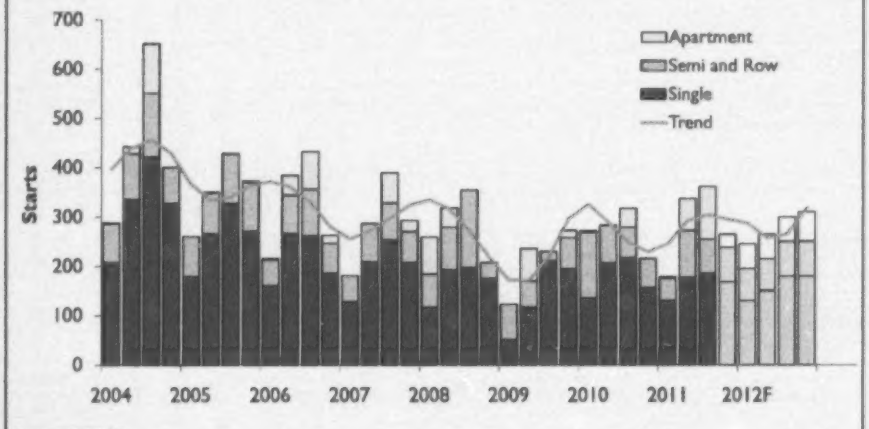
Date Released: Fall 2011

Market at a Glance

- After a strong third quarter in 2011, existing home sales will decline in the fourth quarter and stabilize for most of 2012. They will reach 5,760 next year.
- Home prices will decline moderately in the fourth quarter of 2011 and increase gradually throughout the year before peaking in the second half of 2012.
- Housing starts will decline by almost two per cent in 2012 due to fewer single-detached homes. Higher-density housing will remain stable in 2012.

Figure 1

St. Catharines-Niagara CMA Housing Starts



Source: CMHC

* The forecasts included in this document are based on information available as of October 5, 2011.

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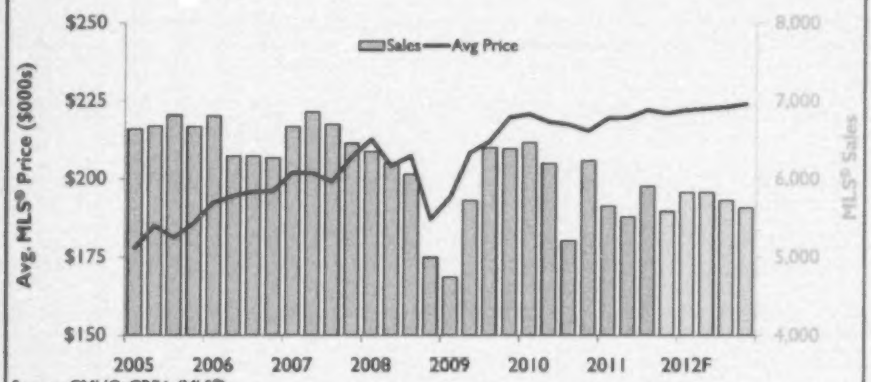
Figure 2

St. Catharines-Niagara MLS® Sales and Average Price*



Source: CMHC, CREA (MLS®)

* Both sales and prices are seasonally adjusted. In addition, quarterly sales data are multiplied by 4 to show an annual rate.

Resale Homes Market

Niagara home price growth moderates in 2012

Existing home sales peaked in the third quarter of 2011 and will trend back down in the fourth. In 2012, sales will grow in the first half of the year before moderating in the third and fourth quarters. On an annual basis, sales will remain relatively stable in 2012. Despite high levels of uncertainty in global financial markets, residential real estate has remained remarkably resilient thanks to an environment of low borrowing rates. However, a slower pace of job growth will temper growth in sales in 2012. Niagara is particularly sensitive to the possibility of another economic downturn in the US because of its proximity and reliance on trade to that country. Sales will also face some headwinds from a smaller pool of first time home buyers whose demand has been satisfied in recent years.

As Niagara recovers from a decline in sales in 2011, the Region's resale home market will remain balanced with the average price increasing at a rate of approximately one per cent in 2012 compared to the previous year. The average home price will not appreciate faster than the rate of inflation as it did at the end of 2009 and start of 2010. With sales growing moderately at the start of 2012, the number of days a home is on the market before it is sold will also increase slightly which will add to new listings. More new listings means there will not be the same level of price appreciation as in 2010 because home buyers will gravitate to less expensive housing in the resale market. Changes in mortgage qualification rules introduced by the government in 2010 and 2011 resulted in first time buyers qualifying for less expensive homes. This will put some downward pressure on the average price of a home in Niagara. There will also be fewer high-end homes sold in the next few months and in the beginning of next year because of the uncertainty in the financial markets. Consumers across the province are already showing less appetite for big ticket spending. With an increase in demand for less expensive homes and fewer sales of high-end homes, growth in the average price of a home in 2012 will be limited.

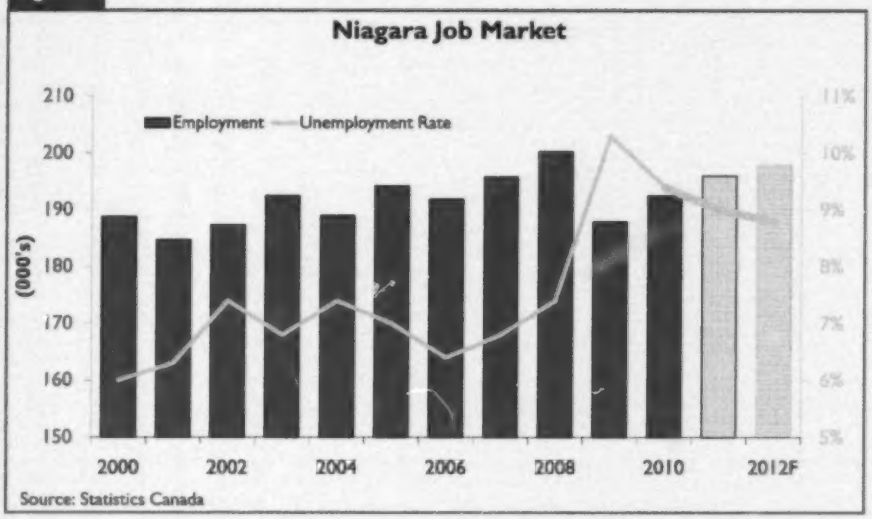
With fewer first time home buyers in the market, Niagara's rental vacancy rate will be declining in 2012. The rental vacancy rate has already declined from April 2010 to April of this year. There will continue to be more potential first time buyers in Niagara that will postpone their purchase and continue to remain in rental accommodation. However, should rates and prices remain stable some first time buyers may enter the ownership market sooner.

New Homes Market

Single-detached homes decline, apartments increase

After a weak finish in the fourth quarter of 2010 and a slow first quarter of this year, housing starts in the St.Catharines-Niagara CMA will be up in 2011. However, housing starts in the fourth quarter will decline following three consecutive quarters of growth. In 2012, starts will increase gradually throughout the year but remain relatively stable. The lower level of demand for new homes will be most noticeable among single and semi-detached homes which will face more headwinds form a lower priced well supplied resale market. The decline in single-detached homes cannot be solely attributed to less demand from buyers. Land availability and demographic changes in Niagara also encourage higher density housing. Slow population growth will continue to limit new home construction, but there will also continue to be a demand from affluent buyers from other areas, such as the Greater Toronto Area (GTA), and from outside the country, who choose to move to Niagara because of its affordability, climate and proximity to major centers in Canada and the US.

Figure 3



Source: Statistics Canada

As the share of new single-detached homes continues to decline in Niagara, the share of condominium apartments is on the rise. Total housing starts were expected to decline in 2011 compared to the previous year. However, because of strong growth in condominium apartment construction, total starts in 2011 will surpass last year's level. There has not been this level of apartment construction activity in Niagara since the early 1990s. Apartment construction will increase further in 2012. The popularity of higher-density housing will only continue to increase. With Niagara's population aging, more empty nesters will choose low maintenance housing such as condominium apartments and townhomes.

Local Economy

Service sector employment and migration support housing market

Following a strong start to the year, employment growth is expected to slow by the second half of 2011 as uncertainty concerning the US takes a toll. However, the early strength will mean that employment will, on average, be up nearly two per cent in 2011. Employment will gradually recover through 2012, but growth will be on average only half of what it was in 2011.

Employment growth continues to be supported by the services sector. Service sector employment reached its highest level in the third quarter of 2011. The seasonally adjusted unemployment rate has declined every month since the beginning of the year. That trend will continue, albeit at a slower rate, in 2012 as more jobs continue to be created in the high tech, information technology, health, education and tourism sectors. The unemployment rate in 2012 will reach its lowest point since 2008. There have been recent improvements with employment in the goods sector, but the decline in employment there continues. Employment in the goods sector made up approximately 28 per cent of total employment in the CMA a decade ago. Today, it is 20 per cent.

The quality of jobs also matters for housing demand. Full time employment growth in the home buying age groups is good news for the housing market. Newly hired full time employees will be inclined to make a big investment, such as purchasing a home, once they have time to save the down payment. Full time employment in the 45 to 64 age group had strong, year over year growth since the beginning of 2011 and has contributed to demand this year. Full time employment in the 25 to 44 age group also grew during that same time period. The employment rate, which measures the share of the population in those ages that have landed a job, increased for both groups in a similar fashion, indicating that the increase in employment in these age groups was not simply due to growth of this part of the population. The seasonally adjusted participation rate increased every month since October last year, until a slight decline in June and July. While this decline may be temporary, it does suggest that the pace of full time job growth is slowing moving into 2012. Niagara continues to diversify its economy to rely less on manufacturing and trade to the US and this should contribute to fewer swings in labour market activity versus the recent past. The labour force in Niagara will grow to its highest level ever in 2012 indicating a growing optimism for people looking to find employment in various sectors in the Region.

International and intra-provincial migration will continue to contribute to modest population growth in Niagara. Between 2005 and 2010, approximately 61 per cent of all migrants to Niagara were from regions outside of Canada. Almost 16 per cent came from the GTA and 14 per cent from Non-CMA cities in Ontario. In 2009-2010, the number of migrants from the GTA more than tripled from the previous year. The

share of migrants from the GTA will continue to increase as retirees, semi-retirees and older families with teens move to the region. Industry professionals, such as realtors and builders, are already implementing, and will continue to expand, marketing strategies and promotion of adult living lifestyle and communities to people in the 55 + age group.

Mortgage Rate Outlook

Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

Forecast Summary St. Catharines-Niagara CMA Fall 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	5,896	5,808	6,024	5,650	-6.2	5,760	1.9
MLS® New Listings	12,428	11,691	12,346	11,850	-4.0	12,200	3.0
MLS® Average Price ($)	203,647	209,563	217,938	221,000	1.4	223,000	0.9
New Home Market							
Starts:							
Single-Detached	680	574	714	660	-7.6	640	-3.0
Multiples	458	285	372	480	29.0	480	0.0
Semi-Detached	56	42	60	30	-50.0	20	-33.3
Row/Townhouse	288	164	271	250	-7.7	250	0.0
Apartments	114	79	41	200 **		210	5.0
Starts - Total	1,138	859	1,086	1,140	5.0	1,120	-1.8
Average Price ($):							
Single-Detached	375,998	368,423	378,640	378,000	-0.2	380,000	0.5
New Housing Price Index (% chg.)	4.3	-0.6	0.8	-0.5	-	1.2	-
Rental Market							
October Vacancy Rate (%)	4.3	4.4	4.4	3.4	-1.0	3.2	-0.2
Two-bedroom Average Rent (October) ($)	777	804	817	835	-	850	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	200,300	187,900	192,500	196,000	1.8	197,900	1.0
Employment Growth (%)	2.3	-6.2	2.4	1.8	-	1.0	-
Unemployment rate (%)	7.4	10.3	9.4	9.0	-	8.8	-
Net Migration	54	796	936	1,000	6.8	1,050	5.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over; MLS® data includes the St.Catharines, Niagara, and Welland boards

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